

48th Annual Meeting of the Academy of International Business

"From the Silk Road to Global Networks:

Harnessing the Power of People in International Business"

Beijing, China

June 23-26, 2006

「Sogo Shosha and project finance」

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はじめに

第48回AIB (Academy of International Business) 年次大会が6月23日から26日にわたり、北京国際コンベンションセンターにおいて開催された。本大会の統一論題は「アジアにおける国際人材ナレッジ・マネジメント」である。企業内に蓄積されるさまざまな無形資産が競争優位の源泉として注目される昨今、無形資産、なかんずくナレッジと国際ビジネスのかかわりを考察することは重要になっている。こうした議論を展開する上で、長年日本のユニークなビジネスモデルである「総合商社」が途上国でのプロジェクト組成にもその蓄積されたナレッジを駆使し、貢献していることに注目することは有意義であるといえる。幸いにも当該論文が Group 3: Economics, Finance & Accounting のセクションに採択され、発表する機会を与えられたので、ここにその抜粋を紹介するものである。

(本文)

Keywords

Sogo-Shosha, IFC, Project Finance, The World Bank, Logistic Regression, B loan

Abstract

This paper examines the usefulness of IFC's (International Finance Corporation) participation when Japanese global trading houses (called as "Sogo-Shosha ") launch the private infrastructure projects in developing countries. The primary motivation behind this study is the major changes in the World Bank's attitudes toward the private infrastructure projects (PIP), and the facilities of the World Bank have become critically useful for Sago-Shoshas when they launch projects. This paper shows a change in the World Bank, and how Sogo-Shushes are launching the infrastructure projects by utilizing the facilities of IFC (International Finance Corporation) and tests whether IFC's participation contributes the success of projects launched by Sogo-Shosha.

The test found that IFC's participation in PIP launched by Sogo-Shosha contributes to the financial closures and the implementation of PIP in developing countries.

Although the limited availability of the data and the confidentiality prohibits me from testing the full effect of the usefulness of IFC' participation in PIP, this study shows that Sogo-Shosha have played an important role in

launching PIP in developing countries by utilizing the facilities of IFC.

Introduction

As observed by many scholars, the majority of research on multinational corporation (MNC) foreign entry has focused on extractive or manufacturing firms (e.g., Boddewyn *et al.*, 1986; Enderwick, 1989, 1992; Habib and Victor, 1991; Li and Guisinger, 1992; Campbell and Verbeke, 1994; Li, 1994; Aharoni, 1996), despite the fact that the service sector has become increasingly important in world trade. In fact, one of the most important international business trends is the growing proportion of trade in services: in the 1990s, for example, over 50% of global FDI was in the service sector (Wirjanto, 1997). Further, according to the World Bank, 'the internationalization of services is at the very core of economic globalization. Service industries provide links between geographically dispersed economic activities and thus play a fundamental role in the growing interdependence of markets and production activities across nations' (Braga, 1996: 1). Yet little is known about the pattern and determinants of international expansion strategies in service industries' (Li, 1994: 218). As suggested by Capar and Kotabe (2003) as well as Hitt *et al.* (2006), to improve our understanding of this key sector of the global economy, research is needed that focuses specifically on MNCs engaged in the delivery of services.

However, for Sogo-Shoshas most scholars have not noticed the evolution in functions of them. Japanese trading firms are involved in many different business activities. Their core business is general wholesale trading at different stages of the value chain, including market intelligence, raw mater-

ials purchasing, and final product marketing with an extensive range of export services (Yoshino and Lifson, 1986; Shao and Herbig, 1993). Japanese trading companies are most effective for undifferentiated products such as food commodities, raw materials, and standardized industrial goods (Roehl, 1982), and in many joint ventures (JVs) these large-scale firms provide marketing and trading services and many other services such as financing, insurance, transportation, and warehousing (Maeda, 1990), with other firms supplying technical and production capabilities (Yoshihara, 1982; Kojima and Ozawa, 1984; Sarathy, 1985). Those previous studies have touched the conventional functions of Sogo-Shosha and not evolutionary ones.

It is important to note that Japanese trading companies are involved in a wide variety of businesses. Traditionally they are involved in foreign trade as commission merchants. In a macroeconomic perspective, Shosha have played an important role by which they have tried to find goods and services that are comparative advantage interpretation and import and export goods and services together with major Japanese manufacturers (K. Kojima). However, recently their functions have evolved to facilitators of project finance. From a macroeconomic view of point, Sogo-Shosha has played a role to promote a kind of "consortium FDI" together with local partners, major manufacturers, World Bank group and other financial institutions.

Therefore, the previous research on Japanese Trading Companies (Sogo-Shosha) focused on FDI (Foreign Direct Investment) in the same way as the internationalization of big manufacturers although they are typical global service industry. Yet little is known about the pattern and determinants of international expansion strategies in Sogo-Shosha in forming pro-

ject finance schemes in developing countries. This paper focused on Japanese Trading company in the perspective of a new function, implementing a project finance by using the facilities of World Bank.

The World Bank seems to be an organization that help the developing countries to grow economically. However, the Bank is also helpful for private sectors in developed countries. In this paper I'd like to deal with Sogoshoshas (Japanese General Trading houses) as case study that is proxy of private sectors and see how the Bank facilities are useful for Sogoshoshas. Here I'd like to focus on the facilities of International Finance Corporation(IFC) among the facilities of the Bank group(IBRD, MIGA, IFC etc.) because of its nature of private sector involvement.

Although a growing body of literature considers the Bank role as public sector involvement, there remains a lack of systematic analysis of the usefulness of the Bank for private sectors. Also, there seems to be almost no research on Sogoshoshas' role in launching the private infrastructure project (PIP) by utilizing the Bank facilities.

Some authors have argued that the burgeoning globalization of big Japanese manufactures reduced Sogoshoshas' importance and will diminish in the future. However, I believe that this not true; Sogoshoshas have evolved in the changing business environment and survived distress. I hope that Sogoshoshas will play a key role in the global front as a unusual business model in Japan.

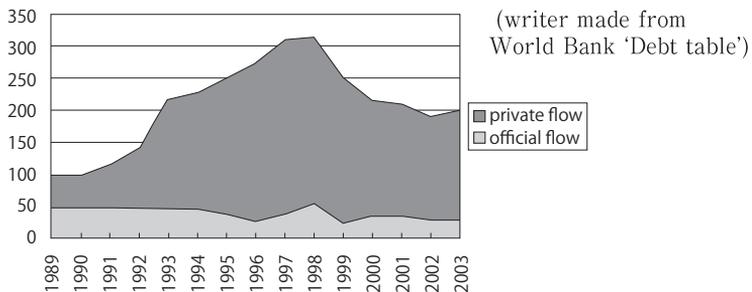
The structure of the paper is as follows. The following section clarifies the increasing importance of financing PIP and the change in the Bank. This is followed by a discussion of what is Sogoshoshas and why they are advantageous position to launch PIP in developing countries. Third section discusses IFC's facilities and advantage for Sogoshosha. The last section discusses the test of the usefulness of IFC participation and conclusion.

Changes in the World Bank

-Prevailing trends with respect to private infrastructure projects in developing countries

In developing countries, there is an increasing trend toward the privatization of state-owned infrastructure projects such as toll roads, power, water, and other fundamental infrastructure projects. There are two major reasons for this. First, governments in developing countries face increasingly tighter budgets and, second, the World Bank (WB) has less room to provide more capital to infrastructure projects in developing countries. Actually, private capital flows to developing countries surpassed official government and public capital flow in the 1980's (re: figure 1).

Figure 1 : Private and official flows to developing countries (US\$ billion)



Second, state-owned infrastructure projects are generally less efficient than privatized projects. Commenting on this trend, the IFC¹(International Finance Corporation, a member of WB group, 1996) states that “ during the past five years many developing countries have started to liberalize markets for infrastructure services. Countries such as Chile, Argentina, Malaysia, Hungary, and the Philippines have promoted competition and private participation in infrastructure (PPI), a sector hitherto dominated by state-owned monopolies. Results have been dramatic in some countries, with development for a virtuous circle of policy changes, successful transactions, satisfied consumers, and further policy liberalization.” For example, since Chile’s main local telecom operator was privatized in 1988, the number of employees per 1,000 lines fell from 13.7 in 1989 to 4.3 in 1995. Spurred by increased domestic competition, Chile’s tariffs are among the lowest in the world².

-Increasing importance of financing private project to mobilize private capital

In this context, financing private infrastructure projects (PIP) has become one of the most important issues among players (sponsors, constructors, contractors, lenders, operators, etc.) participating in PIP. In fact, because sovereign risks (exploration, transfer of foreign exchange, concession revoked and etc.) exist in addition to project performance, technology risk, and market risk, it is extremely difficult for sponsors (main players in PIP) to mobilize private capital into PIP. However, multi-financial institutions

¹ One of the branches of The World Bank, supporting private sectors in developing countries (see Figure 2.

² IFC annual report, 1997, p9

and other ECA (export credit agency) have begun to provide the facilities to reduce these political risks so that sponsors can catalyze private capital from private lenders to their PIP. Therefore, private sector entities (Japanese trading houses, construction companies, and other players) need to know the kinds of facilities available for financing PIP.

-The facilities of WB group for PIP

WB has been traditionally regarded as simply a large lender to governments of developing countries. However, a change in WB group has occurred. WB has strengthened the private financing sectors (re:Figure 2) and launched a new guarantee program.³ According to WB press release (Feb., 1997), the WB established the Private Sector Group in order to mobilize private capital to PIP in developing countries. I'd like to focus on IFC among WB group (WB consists of IDA,IBRD, IFC, and MIGA) because IFC's function is the most compatible for launching PIP with Japanese Sogo-Shoshas (re: Figure 3). IFC is a kind of financial institution that provides loans or equity directly to private sectors in developing countries.

³ IBRD produced a new guarantee scheme in 1994. Under this guarantee, there are two basic types of coverage: (a) Partial risk guarantees for performance of certain sovereign contractual obligations which are critical to the sustained viability of the project, including transfer risk; and (b) Partial credit guarantees to cover a portion of the financing provided by private financiers.

Figure 2: WB PSD (Private Sector Development) established in 1996 (writer made)

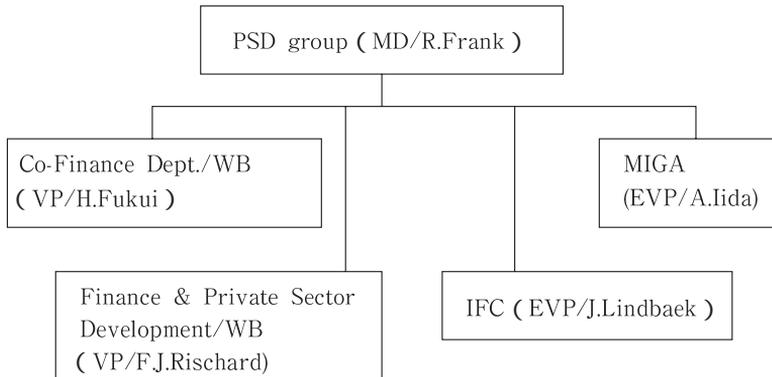
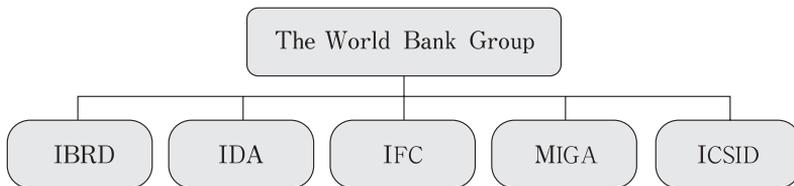


Figure 3: The World Bank Group (writer made)



IBRD: The international Bank for reconstruction and Development

IDA: The international development association

IFC: The international finance corporation

MIGA: The multinational investment guarantee agency

ICSID: The International Centre for Settlement of Investment Disputes

What is SogoShosha ?

SogoShoshas are large Japanese companies which operate globally and have always ranked among the top 10 corporations in the world in terms of sales

volume. According to *The Economist* (“ Sprightly dinosaurs, ”11 Feb 1995), the turnover of the major Japanese trading companies totaled around 100 trillion yen (\$ 1 trillion), equivalent to a quarter of Japan’s GDP. In Japanese, the term “ SogoShosha ” simply means “ general trading houses. ” They are unusual companies which have no real equivalents in the business world outside of Japan.⁴

It is no exaggeration to say that the Japanese economy has developed and grown from the Meiji era up to the present in conjunction with the trading companies, even if some of these firms were compelled to reform by GHQ (US occupation authority) after World War II. The trading companies have played an important role in core fields of Japan’s enormous economic growth what we call “ Economic Miracle in Japan ”. Trading houses have acted as the advanced guard of the manufacturers or as their hands and feet, and sometimes as mediators. Statistics show that trading houses have handled about one fifth of Japan’s total exports and one third of its imports in 2000.⁵

There have been as many as 8,500 trading companies engaged in Japan’s foreign trade.⁶ The majority of these have been specialized trading companies that are relatively small in scale and handle selected products or trade only with particular regions of the world. The exports handled by these small and medium-sized trading companies are mainly light industry

⁴ Taken from, Matsuda, S. (2001)“ Financial Analysis of Sogo-Shosha ”.

⁵ Taken from, Nihon Bouekikai, “ Nihon Boueki no Genjo ”2004.

⁶ Taken from, JETRO, “ Boeki-Tokei ”, p42 July 1995.

products, such as sundries and textiles, usually exported to Southeast Asia and the US. Their imports are mostly sundries, metals, machines and tools that come mainly from Southeast Asia.

At the other end of the scale is the group consisting of less than ten giant trading companies which together handle major portion of all Japanese exports and of imports. These firms differ from the specialized trading companies in that their business activities are not restricted to specific products or specific regions. Because they deal widely in every kind of merchandise and trade with all regions of the world, they have come to be known as “ Sogo-Shosha. ”

The distinguishing features of Sogo-Shosha are their size and presence both in the Japanese and world economy. According to Fortune, the American business magazine, the top 5 Sogo-Shoshas have always appeared among the top 10 largest companies in terms of sales.⁷ For example, Marubeni Corporation's sales in 1997 were US\$136billion⁸ and the other 4 major Shoshas (Mitsubishi, Mitsui, Sumitomo, and Itochu) range from US\$130 to US\$150 billion. Thus, no western trading firms can compete with Sogo-Shosha in sales volume. Their sales are roughly on a par with the sales of the world's oil majors.

⁷ Fortune (June 12, 1997). *500 Top companies in the world*. p.129.

⁸ Taken from, Annual report 1998 issued by Marubeni Corp.,p 52.

Table 1 : Size of Sogo-Shosha⁹ (as of 2002FY) (writer made)

| | sales | gross profit | gross margin | employees | consolidated |
|------------|------------|--------------|--------------|-----------|--------------|
| | 100mil yen | 100mil yen | (%) | | affiliates |
| Mitsubishi | 132307 | 6439 | 4.87 | 44034 | 780 |
| Mitsui | 126545 | 5541 | 4.38 | 36116 | 857 |
| CI | 114005 | 5789 | 5.08 | 36529 | 671 |
| Sumi | 96454 | 4873 | 5.05 | 30264 | 720 |
| MC | 89722 | 4368 | 4.87 | 28140 | 515 |
| Nissho | 54645 | 2658 | 4.86 | 17720 | 520 |
| total | 613678 | 29668 | 4.83 | 192803 | 4063 |

CI: C.Itoh & Co., Ltd.

MC: Marubeni Corporation

Table 2 : Rankings in the number of affiliates¹⁰ (as of 2003FY) (writer made)

| | consolidated companies | | |
|--------------|------------------------|---------------------------|------------------|
| | | Consolidated subsidiaries | Equity investees |
| Sony | 1161 | 1080 | 81 |
| Hitachi | 1123 | 1047 | 76 |
| Mitsui * | 882 | 549 | 333 |
| CI* | 852 | 633 | 219 |
| Sumi * | 767 | 553 | 214 |
| Brigestone | 727 | 489 | 238 |
| Mitsubishi * | 653 | 481 | 172 |
| MC * | 646 | 456 | 190 |
| Nissho * | 617 | 412 | 205 |
| Fujitsu | 518 | 493 | 25 |

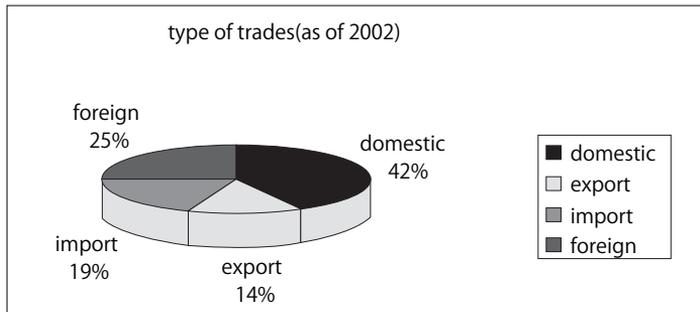
Marking by
* indicates
trading
companies

⁹ The figures come from annual reports of each trading house.

¹⁰ The figures from " Tokei Geppo ", Toyo Keizai.

This is mainly because “ Sogo-Shosha ” is so unusual that no corresponding company can be found in foreign countries.

Figure 4 : Type of trades (writer made)



-Roles of the Sogo-Shosha

One of the most important features of the Sogo-Shosha is its adaptability to change. The Sogo-Shosha can take on new functions to cope with changes in the economic environment and the needs of the market and customers worldwide.

At each stage of Japan’s post-war economic progress, the Sogo-Shosha’ functions have evolved and they have continually assumed new functions, in addition to their traditional trading activities. In the 1950’s, the Sogo-Shosha’s main function besides imports and exports was to supply funds for installing and improving production facilities and to serve as intermediaries in the import of foreign technology. In the 1960’s, the Sogo-Shosha advanced into real estate and construction, became partners in joint ven-

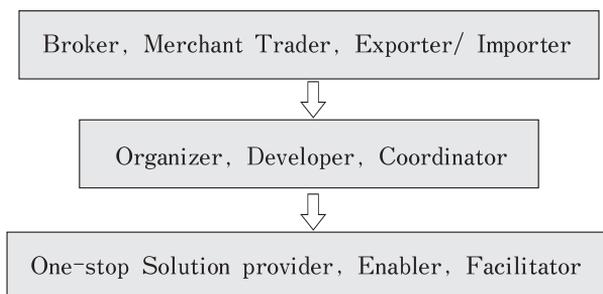
tures with steel and textile companies overseas, and engaged in overseas development of agricultural, marine and forest resources for import to Japan. Production plant exports also became a major activity. In the 1970s, new functions and businesses included the overseas development of large-scale mineral, coal, oil and gas resources for import to Japan, as well as ocean development, promotion of new industries, such as the information, food service industries, and leisure industries, and acting as the organizer of large national land development. And in the 1980s, additional functions were assumed, such as software services, communications network operations, venture capital and other financial services. In the 1990s, Sogo-Shoshas began to face difficulties in finding new business opportunities in light of the rapid progress of information technology.

A key function of SogoShosha is that of coordinating big business projects. In other words, it is not confined just to selling and buying goods. Sogoshosha often participates in resource development such as iron ore and coal and organizes related companies to join such projects by providing them with local tie-ups, distribution, merchandise, foreign exchange, shipping and so forth. It also provides such financial services as granting credit and arranging investments and loans, and organizes the development of products, markets, and new business.

As a result of such continuous adaptation to the changing business environment, the SogoShosha has become an exceedingly complex and multifaceted enterprise. It is a commission merchant: a broker; a wholesaler and, at the same time, a distributor, a leasing company, an investment banker, a de-

veloper, a think tank and a marketing consultant. Akio Shibata¹³ says that the SogoShosha is a unique type of company that has continually adapted itself to the change of business environment.

Figure 5 : Evolution of SogoShosha's roles (writer made)



In the present business and financial environment, I believe that one of the most significant roles these companies will play is that of launching infrastructure projects in developing countries because project finance requirements match Soshu's multi-functions: finance, information skill, risk-management, logistics, and organizer.

Especially IFC facilities help Sogoshoshas to reduce political risks involving PIP in developing countries.

Advantages of IFC facilities for Sogoshoshas

-Guidance of the IFC loan and investment

IFC is ready to take the risk if the concerned project is profitable; so,

¹³ Deputy Director, Marubeni Research Institute.

IFC undertakes an appraisal of the project by its in-house expert. Then, if IFC's loan and investment are provided to a project which trading companies are launching, it will confirm the superior nature and securability of the projects concerned with respect to the following points. (see appendix for IFC summary)

-Loan participation program called " B loan"

There is a catalyst function called "B loan" which leverages private-sector capital in addition to its equity participation. A privately owned bank brings together "B loans" lent under IFC's umbrella, and this means that there is a single loan agreement between IFC and the borrower. Therefore, when viewed by a borrower, the funds it receives will be regarded as a single IFC loan, and payment will be guaranteed mostly due to IFC's special status as a multilateral development agency.¹⁴ That is, the lending of money for a project in a country which is not bankable by commercial banks becomes bankable as a result of IFC's participation.

-Finance know-how

While IFC is the forward guard of project finance, and has a reserve supply of abundant know-how, it also has a record of performance in development of refined schemes (syndications, derivatives, lease, a fund, etc.); therefore, the status of the project concerned increases as a result of IFC's participation. Moreover, trading companies can obtain a

¹⁴ In over 38 years of operation, IFC's net loan write-offs have represented only 1.5 percent of cumulative loan disbursements (taken from " The IFC loan participation program ").

reserve supply of know-how by making IFC into a partner.

In short, unlike the facility of IBRD, IFC does not require a counter guarantee from host countries where PIP is located. Also, as the above (2) shows, trading houses are able to consult with IFC about financial hybrid schemes with the involvement of IFC. Moreover, the default ratio of PIP with IFC is very low; thus, the involvement of IFC is sure to decrease political risks.

Reduction of country risk

The percentage of debt collection (Collection Rate) of money lent for projects in which IFC has participated is 90% or more, and since the sense of security which can be said also as a quasi-guarantee of payment for private-sector firms is brought about, it leads to a country risk reduction. It should be noted that no IFC loan has lapsed into default as a result of political risk until now. I' like to show you the mechanism behind this by using the following finance scheme.

We assume that Japanese steel maker(Sasamoto) tries to establish a steel plant with a local partner in Bolorama, high political risk country, together with Sogoshoshas(traco). Total capital requirement amount is \$720million. The finance scheme proposal is as follows:

Our Proposal to Sasamoto : How to finance the Bolorama steel factory

Equity :

(sponsors)320
 Sasamoto 200 with 10 Japanese major traco
 local partner 100 (land and equipment)
 Laurel & co.,10

Subordinate loan :

100 JBIC, ODA, WB

Commercial loan A200

IFC-B loan 10
 Japanese bank syndicates 180
 Laurel leasing co., 10

Loan B : 100

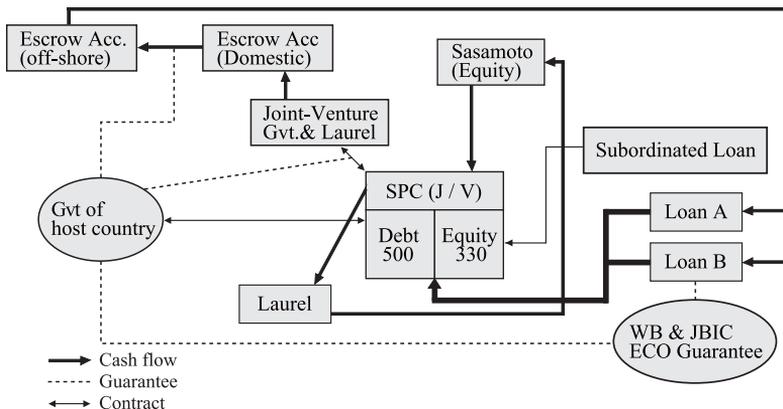
- Local banks
- Offshore commercial bank with ECO guarantee

Lease : 100

- Laurel as intermediary

Total equity : \$ 320 mil

Total debt : \$ 500 mil



If the IFC-B loan is unpaid due to some events (ex. Policy change, transfer risk, etc.), the World Bank group will claim the prompt repayment of all lending fund to the government of Bolorama due to the cross default clause in the loan agreement. Usually the developing countries like Balorama has some debt owed to the World Bank group in terms of loan or so. Therefore, the host government tries to repay the IFC-B loan by all means. This contributes to the full commitment by the government for pre-promises such as the concessions and the purchase agreement for the products.

Tests of IFC participation's usefulness for Sogo-Shosha for implementing PIP
-Data and methods

Data for this study were collected through structured face-to-face interviews with top managers of representative trading houses such as Mitsubishi Corp, Mitsui & Co. Ltd. and Marubeni Corp. I could collect a total of 44 samples: 25 samples from Marubeni (re: table3), 10 from Mitsubishi, and 9 from Mitsui.

The interviews, which lasted 120-150 min, were conducted in 2000-2004. During the interviews, I asked the following pre-set questions:

1. Did the project involve the IFC'?
2. Could the project achieve the financial closure?

Table 3 : Samples of Data (writer made from hearing)**A. implemented projects**

| Department | Project description | Amount (\$ million) | IFC participation | Completed year |
|------------------------|----------------------------------|----------------------|-------------------|----------------|
| • Chemicals | Indonesia P. A. UNITEX | 3,668million rupees | Equity 12.8% | 72 |
| • Textile | Indonesia ARGO-PANPES | 100 | B laon | 80 |
| • Non-ferrous | Philippine PASAR copper refinery | 580 | Equity 7.2% | 80 |
| • Energy | Chile Methanol plant | 300 | | 85 |
| • Industrial Machinery | Pakistan FAUJI cement | 70 | Bloan:20MIL | 94 |
| • Industrial plant | Pakistan MAPLE LEAF cement | 80 | Bloan:35MIL | 94 |

B. projected projects

| Department | Project profile | Amount (\$million) | Partner / IFC participation |
|-----------------------------|---|--------------------|--------------------------------------|
| • Energy& Chemical projects | Middle East Fertilizer Complex | 300 | QGPC (Qatar) / SINOPEC (China) |
| • Energy& Chemical Projects | Venezuela Orinoco Extra Heavy Oil Upgrading Project | 2,500 | IFC |
| • Energy& Chemical Projects | China Aromatics Complex | 1,000 | TUNTEX (Taiwan) |
| • Energy& Chemical Projects | Nigeria LNG Project | 4,000 | TSK consortium IFC B loan |
| • Plant | Bangladesh Cold Rolling Mill | 70 | Comcraft/Essar/A. K. Khan IFC B loan |
| • Textile Machine | Bangladesh Polyester Polymerization | 70 | J/V with BEXIMCO |

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| Department | Project profile | Amount (\$million) | Partner / IFC participation |
|--------------------|---------------------------------------|--------------------|---|
| • Industrial Plant | Philippine Cement Plant (Pangasinan) | 550 | TUNTEX(Taiwan)/Kantai cement/TAN (Philippines) Mandate Letter with IFC |
| • Industrial Plant | Vietnam Cement Plant (Hoah Bo) | 230 | Co-work with Kankyo cement |
| • Power plant | Argentina El Brancho c/c | 260 | Pluspetrd: local gas co. |
| • Power plant | Argentina Genelba c/c | 350 | J/V with Perez Companc |
| • Power plant | China Guangdong Taishan thermal power | 1,300 | Guangdong Corp. BOT scheme |
| • Chemical | Vietnam PVC PROJECT | 105 | SCCI approval committed Oxchem/Vietgas/Tramatsuco |
| • IT | Indonesia KSO project | 600 | ASTKATEL, France TELCOM L/I permitted |

This paper conducts the test of the usefulness of IFC involvement in PIP. In testing whether IFC participation in PIP is effective for PIP to be successful or not, logistic regression analysis is employed. Because the dependent variable (success or failure) is categorical, logistic regression analysis is appropriate.

The following model is used as the basis of logistic regression analysis.

$$g(x) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_r x_r$$

Where

$$g(x) = \log \left(\frac{p(x)}{1-p(x)} \right)$$

$p(x)$: probability of success in PIP

x_1 = IFC participation

Measures

Dependent variable

Log odd ratio, $g(x)$ is regarded as dependable variable and consists of $p(x)$. On a dummy code approach, where 1=failure and 0=success, the criteria of success is whether Sogo-Shoshas achieve financial closures in PIP, implemented the construction, and started to operate.

Independent variable

IFC participation as the variable was measured by asking respondents whether IFC participated or not in the project Sogo-Shosha launched. The scale " 1 " attached to " yes " for any participation patterns whether loan or equity or advisory. The scale " 0 " was attached to " no ", which means no IFC involvement in the project.

Results

In this test, whether IFC participation in PIP has increased the probability of the success of PIP or not is examined through logistic regression. Logistic regression analysis is based on the model used in previous section which is replicated below.

$$g(x) = \beta_0 + \beta_1 x$$

(See notes for equation above)

The result is reported in table 10.

Table 10 : Variables in the Equation

| | B | S.E. | Wald | df | Sig. | Exp(B) | 95.0% C.I. for EXP(B) | |
|---------------------------------------|--------|------|--------|----|------|--------|--------------------------|---------|
| | | | | | | | Lower | Upper |
| Step IFC participation (a) (1) | 2.912 | .468 | 9.766 | 1 | .002 | 18.400 | 2.962 | 114.307 |
| Constant | -2.442 | .737 | 10.976 | 1 | .001 | .087 | | |

a Variable(s) entered on step 1: IFC participation.

When testing the hypotheses that IFC participation increased the probability of the success in PIP, the resulting regression model was statistically significant, with IFC participation in PIP being strongly related to the probability of the success of PIP. The result shows that IFC participation increases log-odd ratio by 2.912. In short, if Sogo-Shoshas can obtain IFC participation in the PIP that they are launching, the estimated probability of its success will be increased by 18.4 times. Hence, IFC involvement in projects is critically important for Sogo-Shoshas.

Conclusion and Limitations

As the above shows, IFC has a variety of facilities to enforce PIP to obtain private capital from private sectors. It is risky for private sectors to provide equity or loans to PIP in high political risk countries. However, if one understands these IFC facilities and apply them to Sogo-Shosha's PIP appropriately, the PIP becomes bankable and will be successful. However, independent variable is only IFC category; so, more variables as the proxy for World Bank involvement such as MIGA, IBRD facilities will be regressed to test the hypothesis and control variables are preferable for the future research.

Appendix

The International Finance Corporation (IFC)

1 . IFC's recent activities and operations¹⁵

1) Estimated IFC investments in FY2003 (July, 2002-June, 2003)

- IFC signed its own investment commitments of \$3.85 billion for 204 projects, of which \$344 million were for equity investment commitments, \$368 million were for quasi-equity investments, \$2.60 billion were loan agreements, \$429 million were for guarantees, and \$106 million were for risk management products.
- Total project costs were \$13.0 billion; therefore, each \$1 in IFC commitments for an own account resulted in an additional \$3.74 in funding from other sources.

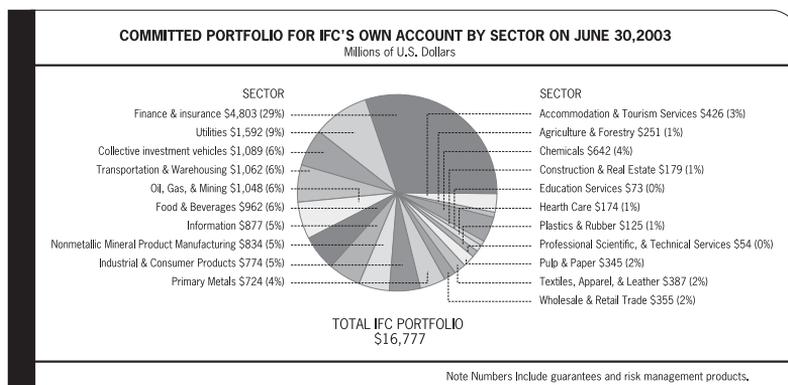
¹⁵ IFC. (2003). IFC's COMMITMENT. *IFC Annual Report*, 4-6.

2) Break-down according to area (only a part for an own account)¹⁶

(Millions of USD)

| | FY02 | FY03 |
|----------------------------|------|------|
| Sub-Saharan Africa | 252 | 140 |
| East Asia & Pacific | 673 | 573 |
| South Asia | 165 | 386 |
| Europe & Central Asia | 664 | 1203 |
| Latin America & Caribbean | 1144 | 1262 |
| Middle East & North Africa | 189 | 279 |
| total | 3087 | 3843 |

3) The aggregate balance according to sectors (own-account + syndicate)¹⁷



¹⁶ IFC. (2003). IFC's COMMITMENT. *IFC Annual Report*, 28-60.

¹⁷ IFC. (2003). IFC's COMMITMENT. *IFC Annual Report*, 78. "Own-account" means that IFC provides capital from IFC's account, which is called "A loan". On the other hand, IFC syndications are called "B loan".

3 . Requirements for projects which IFC supports¹⁸

IFC has a dual character: as a development organization and as a bank which seeks to ensure profitability. This dual nature influences the determination of those projects in which the IFC will participate. This dual character is summarized by the following three principles.

1. The business principle: IFC should function like a business in partnership with the private sector and take the same commercial risks, so that its funds, even though they are backed by public sources, are transferred under market disciplines.

2. The catalytic principle: IFC should seek above all to be a catalyst in helping private investors and markets to make good investments.

3. The principle of the special contribution: IFC should participate in an investment only when it makes a special contribution that supplements or complements the role of market operators.

Principles 1 and 2 are clear; so, judgment of the special contribution (principle 3) is considered to be a key measure with IFC.

-projects that are profitable; however, private investors cannot participate due to high political risks.

-projects which can contribute to the economic development of interested

¹⁸ IFC. (1977). Contributing to development. I.

states in respect of employment absorption, export power reinforcement, etc.

-projects that are effective in the marketization of a developing country.

When those in the private sector seek the IFC participation in their projects, it is critical for them to consider the above elements and bring their project descriptions to IFC from an early stage.

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